

International and markets

US: The flash composite PMI for July fell to below expectations 59.7 (June 63.7), driven by a weaker though still-strong services figure of 59.8 (June 64.6). The drop reportedly reflected widespread capacity constraints, though also comes amid broader signs that growth momentum might be slowing, including linked to concerns about rising delta variant virus cases. The Fed is due to meet this week and although CPI inflation surged to 5.4% y/y in June (and the core rate to a 30-year high of 4.5%), no change in policy is expected. However, there may be signals that the bank will begin tapering its QE asset purchases later this year.

Europe: The ECB as expected left policy on hold (deposit rate - 0.5%, PEPP asset purchase target of €1.85 trn by next March), but did change its guidance language to reflect the recently-announced 2% symmetric inflation target. The Bank said interest rates would now remain at or below current levels until inflation is projected to hit the target well before the end of its (3-year) forecast horizon.

Financial markets: Global equities rallied as strong corporate earnings bolstered sentiment despite renewed virus and recovery concerns. The MSCI AC World rose 1.2% w/w, lifted by solid gains in Europe (Euro Stoxx 50 +1.8%) and the US (S&P500 +2%). Emerging markets bucked the trend, down 1.8% (MSCI EM). The US 10-year treasury yield dipped 2 bps w/w to 1.28% amid concerns of an underwhelming recovery and a resurgent virus. GCC markets were closed for Eid.

Oil: The Brent oil price increased by 0.7% w/w to \$74.1/bbl, quickly recuperating a 6.8% plunge early in the week, after OPEC+ reached a deal to increase production levels by 400,000 b/d each month for the remainder of this year and into 2022, ending two weeks of uncertainty for the oil market. The agreement also adjusted, effective May 2022, the production baseline for several countries such as KSA and Russia (by 500,000 b/d), UAE (332,000), and Kuwait (150,000).

MENA Region

Kuwait: S&P downgraded Kuwait's sovereign credit rating to 'A+' from 'AA-' with negative outlook on expectations that the deficit could reach 17% of GDP over FY21/22 to FY24/25 with the absence of a comprehensive financing strategy to augment its depleted GRF.

Saudi Arabia: Fitch affirmed the sovereign rating at A and revised the outlook to stable from negative, forecasting a narrowing in the budget deficit to 3.3% in 2021 from 11.2% in 2020. Meanwhile, inflation accelerated from 5.7% y/y in May to 6.2% in June, the highest level in the past ten months. The higher inflation was mainly driven by the transport sector where prices increased 22.6% y/y (19.3% in May) and the food/beverages sector with prices up 8.1% (7.4% in May).

UAE: UAE banks reported financial gains for 1H21 on an improvement in economic conditions. Moreover, domestic credit declined by 1.6% y/y in May on the back of lower credit to the private sector (-2.8%) and GREs (-1.9%), while credit to the government increased by 4.4%.

Bahrain: GDP registered a drop of 2.1% y/y in 1Q21 as the non-oil sector contracted by 3.0% driven by a decline in manufacturing, transportation and hotels and restaurants. Moreover, the oil sector increased by 2% y/y as oil production increased by 4% y/y to 188,000 b/d.

Egypt: The trade deficit declined 13.3% in April 2021 to \$3.1 billion on 8.1% increase in imports that more than offset the rise in exports by 47.4% y/y. Meanwhile, the ministry of petroleum has increased domestic fuel prices for the second time in 2021 by 25 piastres per liter. However, the impact on commodities prices is expected to be limited given that diesel prices remained unchanged.

Key takeaways:

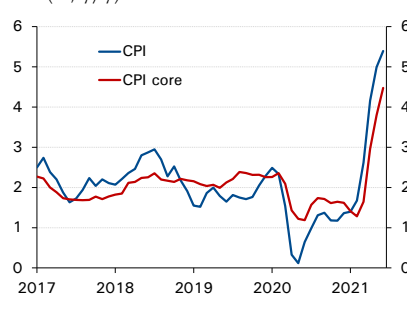
- The Fed's position that inflation in the US is transitory is being challenged and maybe it is time to start tapering QE this year and raising interest rates in late 2022.
- The change in the ECB's forward guidance reflects greater determination to push inflation up to the 2% target over time. Rates may now be on hold for several years and asset purchases could be extended next year despite reservations among some ECB officials.
- The downgrade in Kuwait's credit rating may provide a trigger for undertaking fiscal reforms. However, fiscal measures will not be sufficient to provide the needed resources for the budget in the short term and hence passing the debt law remains an urgent priority.
- The revision of Saudi Arabia's rating outlook to stable from negative at Fitch is a testimony to the government's ongoing reforms and commitment to fiscal consolidation.

▶ **Chart 1: Brent crude oil price** (\$/bbl.)



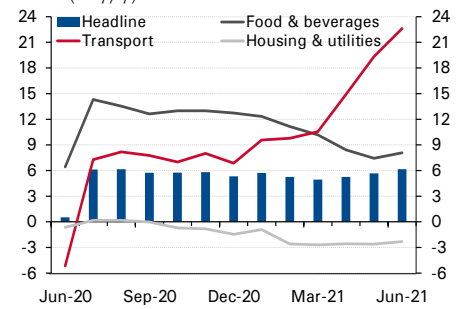
Source: Refinitiv

▶ **Chart 2: US inflation** (% y/y)



Source: Refinitiv

▶ **Chart 3: KSA inflation** (% y/y)



Source: GASTAT

Key data

Stock markets	Index	Change (%)	
		1-week	YTD
International			
CSI 300	5,089	-0.1	-2.3
DAX	15,669	0.8	14.2
DJIA	35,062	1.1	14.6
Eurostoxx 50	4,109	1.8	15.7
FTSE 100	7,028	0.3	8.8
Nikkei 225	27,548	-1.6	0.4
S&P 500	4,412	2.0	17.5
Regional			
Abu Dhabi SM	7,065	1.0	40.0
Bahrain ASI	1,579	-0.1	6.0
Dubai FM	2,744	-0.6	10.1
Egypt EGX 30	10,647	4.9	-1.8
MSCI GCC	661	0.7	20.8
Kuwait SE	6,397	0.3	15.3
KSA Tadawul	10,795	1.0	24.2
Muscat SM 30	4,075	-1.4	11.4
Qatar Exchange	10,696	-0.9	2.5

Bond yields	%	Change (bps)	
		1-week	YTD
International			
UST 10 Year	1.28	-1.9	36.9
Bunds 10 Year	-0.41	-6.2	16.2
Gilts 10 Year	0.59	-4.2	39.0
JGB 10 Year	0.01	-0.9	-1.1
Regional			
Abu Dhabi 2022	0.42	7.5	-7.8
Dubai 2022	0.27	0.0	7.4
Qatar 2022	0.30	6.2	-21.9
Kuwait 2022	0.62	31.1	15.9
KSA 2023	0.64	1.9	-7.3
Commodities			
	\$/unit	Change (%)	
		1-week	YTD
Brent crude	74.1	0.7	43.1
KEC	73.7	0.3	45.6
WTI	72.1	0.4	48.5
Gold	1801.4	-0.7	-4.8

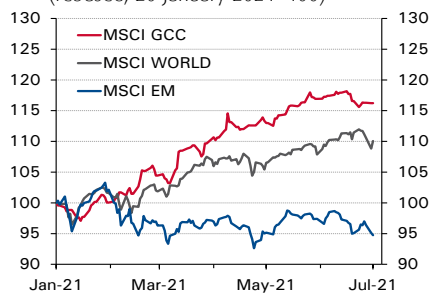
Interbank rates	%	Change (bps)	
		1-week	YTD
Bhibor - 3 month	1.59	-5.0	-65.8
Kibor - 3 month	1.50	0.0	6.3
Qibor - 3 month	1.16	17.8	3.4
Eibor - 3 month	0.35	-0.7	-16.5
Saibor - 3 month	0.79	0.0	-2.5
Libor - 3 month	0.13	0.6	-10.4
Exchange rates			
	rate	Change (%)	
		1-week	YTD
KWD per USD	0.301	0.1	-1.0
KWD per EUR	0.363	0.0	-0.1
USD per EUR	1.177	-0.3	-3.6
JPY per USD	110.5	0.4	7.1
USD per GBP	1.375	-0.2	0.5
EGP per USD	15.62	-0.3	-0.4

Updated on 23/7/2021

Source: Refinitiv

International equity markets

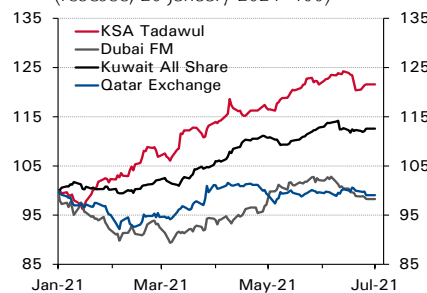
(rebased, 20 January 2021=100)



Source: Refinitiv

GCC equity markets

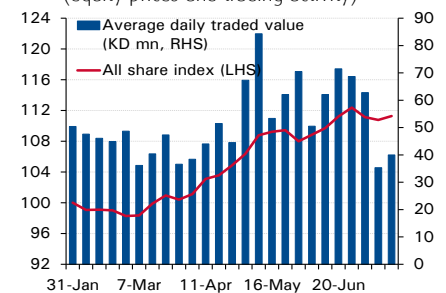
(rebased, 20 January 2021=100)



Source: Refinitiv

Boursa Kuwait

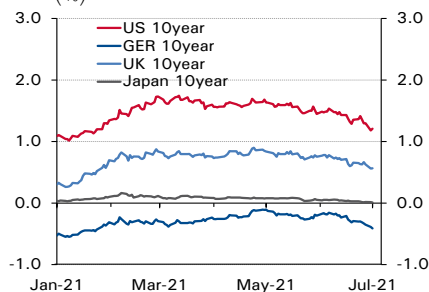
(equity prices and trading activity)



Source: Refinitiv

International bond yields

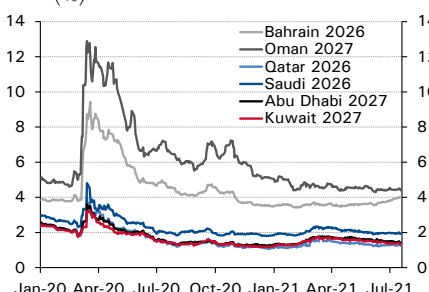
(%)



Source: Refinitiv

GCC bond yields

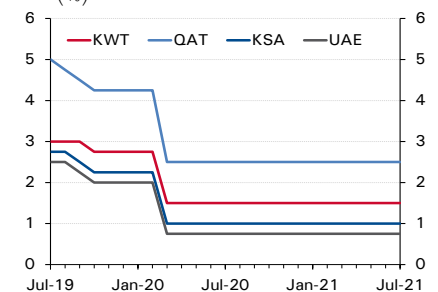
(%)



Source: Refinitiv

GCC key policy rates

(%)



Source: Refinitiv